

OPEN MEETING ITEM

COMMISSIONERS

Lea Márquez Peterson - Chairwoman
Sandra D. Kennedy
Justin Olson
Anna Tovar
Jim O'Connor



Matthew J. Neubert
Executive Director

Jane Rodda
Hearing Division Director

ARIZONA CORPORATION COMMISSION

DATE: NOVEMBER 22, 2022

DOCKET NO.: W-01539A-22-0064 AND W-01539A-22-0065

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

ROSE VALLEY WATER COMPANY
(FINANCING AND RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by efilng at <https://efiling.azcc.gov/> or filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

DECEMBER 2, 2022

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 6 AND 7, 2022

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

A handwritten signature in black ink, appearing to read "m. neubert", with a horizontal line extending to the right.

MATTHEW J. NEUBERT
EXECUTIVE DIRECTOR

On this 22nd day of November, 2022, the following document was filed with Docket Control as a Recommended Opinion and Order from the Hearing Division, and copies of the document were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the filed document to the following who have consented to email service.

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By:



Elishua Cervantes
Assistant to Belinda A. Martin

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 LEA MÁRQUEZ PETERSON– CHAIRWOMAN
4 SANDRA D. KENNEDY
5 JUSTIN OLSON
6 ANNA TOVAR
7 JIM O’CONNOR

8 IN THE MATTER OF THE APPLICATION OF
9 ROSE VALLEY WATER COMPANY FOR
10 APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-01539A-22-0064

11 IN THE MATTER OF THE APPLICATION OF
12 ROSE VALLEY WATER COMPANY, AN
13 ARIZONA CORPORATION, FOR A
14 DETERMINATION OF THE FAIR VALUE OF ITS
15 UTILITY PLANTS AND PROPERTY AND FOR AN
16 INCREASE IN ITS RATES AND CHARGES FOR
17 UTILITY SERVICE BASED THEREON.

DOCKET NO. W-01539A-22-0065

DECISION NO. _____

OPINION AND ORDER

18 DATE OF HEARING: September 22, 2022

19 PLACE OF HEARING: Phoenix, Arizona

20 PUBLIC COMMENT MEETINGS: August 23, 2022, at 6:00 p.m., September 15, 2022, at
21 6:00 p.m., and September 22, 2022 at 10:00 a.m.

22 ADMINISTRATIVE LAW JUDGE: Belinda A. Martin

23 APPEARANCES: Meghan H. Grabel and Elias J. Ancharski, Osborn
24 Maledon, P.C., on behalf of Rose Valley Water
25 Company; and

Ms. Katherine Kane, Staff Attorney, Legal Division, on
behalf of the Utilities Division of the Arizona
Corporation Commission

26 **BY THE COMMISSION:**

27 Having considered the entire record herein and being fully advised in the premises, the Arizona
28 Corporation Commission (“Commission”) finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On March 8, 2022, Rose Valley Water Company (“Rose Valley” or “Company”) filed
an application with the Commission for approval of a financing under Docket No. W-01539A-22-0064

1 (“Financing Application”).

2 2. On the same date, Rose Valley filed an application with the Commission for a
3 determination of the fair value of its utility plants and property, and for an increase in its rates and
4 charges for utility service based thereon, under Docket No. W-01539A-22-0065 (“Rate Application,”
5 and together with the Financing Application, the “Applications”).

6 3. On March 18, 2022, the Company filed a Notice of Filing Affidavit of Publication, in
7 which Rose Valley averred that the Company published notice of the Financing Application on March
8 17, 2022, in the *Glendale Star*.

9 4. On March 22, 2022, Rose Valley filed in both matters Motions to Consolidate the
10 Financing Application docket and the Rate Application docket.

11 5. On March 25, 2022, by Procedural Order, Docket Nos. W-01539A-22-0064 and W-
12 01539A-22-0065 were consolidated.

13 6. On April 7, 2022, the Commission’s Utilities Division (“Staff”) filed a Letter of
14 Sufficiency stating that Rose Valley’s Rate Application met the sufficiency requirements outlined in
15 Arizona Administrative Code (“A.A.C”) R14-2-103, and classifying Rose Valley as a Class C utility.

16 7. On April 25, 2022, a Procedural Order was issued setting the hearing to begin on
17 September 22, 2022, and establishing certain procedural guidelines and filing deadlines.

18 8. On April 27, 2022, Chairwoman Márquez Peterson submitted a letter to the docket
19 regarding the processing of financing applications.

20 9. On May 20, 2022, the Company filed a Notice of Filing Certification of Mailing,
21 Publication, and Posting, stating that Rose Valley had published notice of the hearing on the
22 Applications in the *Arizona Business Gazette* on May 5, 2022.

23 10. On May 24, 2022, Rose Valley docketed a Revised Notice of Filing Certification of
24 Mailing, Publication, and Posting, stating that in addition to the publication of the notice on May 5,
25 2022, the Company also mailed notice of the hearing to customers on May 13, 2022, and posted the
26 notice to Rose Valley’s website on April 30, 2022. In response to the notice, nine Rose Valley
27 customers filed written comments in opposition to the rate increase.

28 11. On August 1, 2022, Staff docketed the pre-filed Direct Testimony of Luis Carranza and

Stephanie Huang.

12. On August 19, 2022, Rose Valley filed a Motion for Extension of Time and Procedural Conference (“Motion”). In the Motion, the Company requested a two-week extension of time to file its Rebuttal Testimony, to September 6, 2022.

13. On August 22, 2022, a Procedural Order was issued granting the Motion and setting a telephonic procedural conference for August 26, 2022.¹

14. On August 23, 2022, a telephonic public comment meeting was held beginning at 6:00 p.m. One Rose Valley customer called in to provide public comment.

15. On August 26, 2022, the procedural conference was held as scheduled. During the procedural conference, the parties discussed a revised timeline for submission of pre-filed testimony.

16. Also on August 26, 2022, by Procedural Order, the procedural schedule set out in the April 25, 2022, Procedural Order was modified as requested by the parties, and other procedural deadlines were established. The hearing date of September 22, 2022, remained the same.

17. On September 1, 2022, Commissioner Sandra Kennedy filed a letter in the docket regarding water conservation concerns.

18. On September 2, 2022, Staff filed a Notice of Appearing In-Person at the Hearing.

19. On the same date, Rose Valley filed a Notice of Filing List of Company Representatives and Witnesses for Hearing.

20. On September 6, 2022, Rose Valley filed a Notice of Filing Rebuttal Testimony of Gary Brasher and Sonn Ahlbrecht.

21. On September 13, 2022, Staff filed a Notice of Filing of Surrebuttal Testimony of Luis Carranza.

22. On September 15, 2022, a second telephonic public comment meeting was held beginning at 6:00 p.m. One Rose Valley customer provided public comment.²

23. On September 16, 2022, Rose Valley filed a Notice of Filing Rejoinder Testimony of

¹ The August 22, 2022, Procedural Order mistakenly set the deadline for the filing of Rose Valley’s Rebuttal Testimony at September 22, 2022.

² During the August 23 and September 15, 2022, public comment meetings, comment at each proceeding was provided by the same Rose Valley customer.

1 Gary Brasher and Sonn Ahlbrecht.

2 24. On the same date, Rose Valley filed a Notice of Filing Hearing Exhibits.

3 25. On September 16, 2022, Staff filed a Notice of Filing Witness Summaries.

4 26. On September 19, 2022, Rose Valley filed a Notice of Filing Witness Summaries.

5 27. On the same date, Staff filed a Notice of Filing Witness Summaries.

6 28. On September 20, 2022, Rose Valley filed a Notice of Errata Re: Exhibit RV-10.

7 29. On September 22, 2022, the hearing was held as scheduled. Public comment was taken
8 at the beginning of the hearing and three Rose Valley customers provided public comment.³ Rose
9 Valley and Staff appeared through counsel. The Company called Gary Brasher, president and an owner
10 of Rose Valley, and Sonn Ahlbrecht, the Company's financial analyst, as witnesses, and Staff called
11 Stephanie Huang, Staff's engineering witness, and Luis Carranza, Staff's financial analyst, as
12 witnesses. At the conclusion of the hearing, the parties stated that they preferred to provide briefs on
13 the matter and agreed upon the briefing schedule.

14 30. On September 23, 2022, a Procedural Order was issued setting a Briefing Schedule.

15 31. On October 14, 2022, Rose Valley and Staff filed their respective opening briefs.

16 32. On October 19, 2022, Staff docketed a Motion for Extension of Time to file its Reply
17 Brief to October 27, 2022. Staff stated that they had contacted the Company and the Company did not
18 object to the extension.

19 33. Also on October 19, 2022, Staff filed a Notice of Errata for the Motion for Extension of
20 Time.

21 34. Also on October 19, 2022, Rose Valley docketed a Notice of Filing stating that the
22 Company did not object to the extension of time as long as the time clock remained the same.

24 ³ During the public comment session held prior to the start of the hearing on September 22, 2022, one issue raised by
25 customers was that they had requested Rose Valley to change their meters from 1-inch to 5/8 x 3/4-inch meters. The
customers stated that, to date, the Company has not acted on the customers' request. (Transcript of September 22, 2022
Hearing ("Tr.") at 9 – 38.)

26 In response, Mr. Brasher testified that the switching to a smaller meter relies on the evaluation and approval of a
27 governmental entity. Mr. Brasher stated that he had called the entity about obtaining an evaluation for a home, but he was
told that they do not have the staff to go out and look at an individual's home meter size and make a determination of
28 whether it is appropriate for the homeowner to switch to a smaller meter. Mr. Brasher testified that the Company is
considering other ways to be able to switch out a meter to a smaller one. Mr. Brasher noted that the Company has contacted
the customers who have requested a smaller meter to discuss possible ways to legally perform that service. (Tr. at 71 – 73.)

35. Also on October 19, 2022, the Company filed a Notice of Errata clarifying certain language in the Notice of Filing.

36. Also on October 19, 2022, a Procedural Order was issued granting the parties' requests and extended the filing deadline for the Reply Briefs.

37. On October 27, 2022, Staff and Rose Valley docketed their respective Reply Briefs.

38. Also on October 27, 2022, Staff filed a Notice of Errata correcting two citations in their Reply Brief.

Background

39. Rose Valley is a Class C water utility providing service to approximately 2,400 customers within the City of Peoria in Maricopa County.⁴ The Commission authorized the Company's current rates and charges in Decision No. 76514 (January 2, 2018).

40. Rose Valley's certificated area is comprised of approximately 1.44 square miles. The Company's water system consists of two active wells with a combined yield of 1,760 gallons per minute, three storage tanks with a combined storage of 1,200,000 gallons, one pressure tank, eight booster pumps, chlorination equipment, and a distribution system. Rose Valley also had an emergency interconnection with the City of Peoria.

41. During the test year ending August 31, 2021, Rose Valley had a water loss of 14.3 percent, which is above Staff's maximum water loss threshold of 10 percent. Staff stated that it believes the meter replacement, radio-read mobile drive-by system meter reading, and remote monitoring system projects as addressed in the Financing Application section, below, will aid the Company to achieve higher accuracy meter reads and possibly a reduction of water loss within the system.

42. According to a Maricopa County Environmental Services Department Compliance Status Report, there are no major deficiencies in the Company's systems, and Rose Valley is currently delivering water that meets the water quality standards required under 40 C.F.R. 141, and A.A.C. Title 18, Chapter 4.

43. The Company's water system is located within the Arizona Department of Water

⁴ Of the Company's residential customers, approximately 2065 are on 5/8 x 3/4-inch meters, seven customers are on 3/4-inch meters, and 245 customers are on 1-inch meters.

Resources (“ADWR”) Phoenix Active Management Area. Staff states that according to the ADWR Water Provider Compliance Report the Company is currently compliant with ADWR’s requirements governing water providers and/or community water systems.

44. Staff states that a review of Commission Consumer Services records between January 1, 2019, and June 6, 2022, reflects one billing complaint made in 2022, two deposit amount complaints were filed in 2021, a billing complaint and a quality of service complain were received in 2020, and one billing complaint and one termination notice complaint were made in 2019. Staff notes that one complaint remains open; all others are closed.

45. According to Staff, a search of its Consumer Services’ database reflects that as of March 17, 2022, Rose Valley was in compliance with all Commission-imposed requirements.

46. Rose Valley currently has a Cross-Connection/Backflow Prevention Tariff and a Curtailment Tariff on file with the Commission.

47. Staff observes that the Company does not have an approved Emergency Water Augmentation Tariff. Staff recommends that Rose Valley file an Emergency Water Augmentation Tariff and Plan of Administration within 30 days of the effective date of this Decision.

48. We find that Staff’s tariff recommendation is reasonable, and we adopt it.

Rate Application

Summary

49. Gary Brasher, Rose Valley’s president and an owner, states in his direct testimony that currently, the Company is facing significant costs to replace aging infrastructure, rehabilitate wells, replace pumps, and build and relocate transmission and distribution facilities.⁵ Accordingly, the Company filed the Rate Application to aid Rose Valley in addressing these issues.

50. As its final position, the Company proposes Operating Revenue of \$1,602,061, an increase of \$250,000, or 18.49 percent, over test year Revenues of \$1,352,061. This results in an Operating Income of \$222,643 on its proposed Fair Value Rate Base (“FVRB”), which is the same as its Original Cost Rate Base (“OCRB”), of negative \$292,817. Due to the proposed negative rate base,

⁵ Direct Testimony of Gary Brasher (“Brasher Direct”), p. 5.

the Company used the Operating Margin methodology to determine Rose Valley's proposed Revenue Requirement. The Company's proposed Revenue Requirement results in an Operating Margin of 13.09 percent. Under Rose Valley's proposed base rates, the residential monthly bill (i.e., prior to the addition of any surcharges)⁶ for a 5/8 x 3/4-inch meter customer with a median usage of 8,468 gallons, would increase from \$27.39 to \$32.19, an increase of \$4.80, or 17.52 percent.

51. Staff recommends adoption of a FVRB/OCRB of negative \$292,817. Staff further recommends an Operating Revenue of \$1,462,425, an increase of \$110,364, or 8.16 percent, over test year revenues of \$1,352,061. Staff states that its recommended Revenue Requirement provides Rose Valley with Operating Income of \$228,000. Staff notes that it adopted the cash flow methodology to determine the Revenue Requirement to ensure the Company has sufficient revenue for Operating Expenses, to make annual debt service payments, and to provide sufficient cash flow for contingencies. Staff's recommended Revenue Requirement results in an Operating Margin of 15.59 percent, and a Debt Service Coverage ("DSC") of 1.3. Under Staff's recommended base rates, the residential monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 8,468 gallons, would increase from \$27.39 to \$33.39, an increase of \$6.00, or 21.9 percent.

52. Rose Valley and Staff agree on most issues, but they disagree regarding management fees expense, imposition of a rate case expense surcharge, imposition of a loan surcharge, the loan contingency percentage, and an adequate conservation rate design.

Rate Base

53. Rose Valley proposes a FVRB of negative \$292,817. The Company states that its negative rate base:

is an extreme example of how [Advances in Aid of Construction] (later accounted for as [Contributions in Aid of Construction])-related developer contributions continue to not only cause negative rate base with each passing year, but also lower depreciation expense due to the large amount of attendant CIAC amortization, which subsequently impacts cash flow."⁷

54. Staff did not dispute the Company's evaluation of its rate base and made no adjustments to the Company's proposal. Staff recommends adoption of a FVRB of negative \$292,817.

⁶ As discussed below, the Company proposes a Loan Surcharge to collect the debt service for the loan, and Staff recommends implementation of a Rate Case Surcharge.

⁷ Ex. RV-6, p. 13.

55. Given the circumstances, we find that Rose Valley's test year FVRB of negative \$292,817 is just, reasonable, and in the public interest.

Operating Statement

56. The Company and Staff agree on test year Operating Revenue of \$1,352,061

57. Rose Valley initially proposed test year Operating Expenses of \$1,360,741. Staff made adjustments to Contractual Services – Management Fees, Water Testing Expense, and Regulatory Commission Expense – Rate Case. The Company accepted Staff's adjustment to Water Testing Expense, which revised the amount from \$3,232 to \$8,885.

Contractual Services – Management Fees

58. In Rose Valley's Rate Application, the Company proposed an expense for Management Fees of \$401,077. Staff recommended a disallowance of \$191,271, which is the equivalent of the full salaries of the Company's six employees. Staff contended that the work performed by five of Rose Valley's employees is duplicative of the work performed by its contractor, Southern Arizona Resource Management ("SARM").

59. Staff states that in response to Staff's data request, the Company provided a copy of the management contract that Rose Valley has with SARM, and Staff noted that the agreement with SARM includes management, accounting, and other services, and includes an extensive list of duties to be performed.⁸ Staff observes that after comparing duties listed in the management contract to those duties performed by Company employees, Staff concluded that, of the six Rose Valley employees, five had duties that were "substantially duplicative" of those duties listed in the agreement with SARM.⁹ In order to eliminate duplicative costs, Staff disallowed \$191,271 of management fees—an amount equivalent to the costs directly charged to salaries and wages expense and payroll taxes—for the five employees with similar responsibilities as those listed in the management contract.¹⁰

60. In its Rebuttal Testimony, the Company corrected the amount of certain contractual services expenses that had been miscategorized in its Direct Testimony.¹¹ Rose Valley noted that the

⁸ Hearing Exhibit ("Ex.") S-1, pp. 5 – 6.

⁹ Ex. S-1, p. 6.

¹⁰ Ex. S-1, p. 6.

¹¹ Ex. RV-7, p. 13.

1 reclassification more accurately reflects how the costs related to the management contract with SARM
 2 are allocated among expense accounts, such as billing costs, for example, and how the expenses should
 3 be categorized.¹² The Company also provided an exhibit clarifying the duties performed by employees
 4 by Rose Valley and those working for SARM.¹³ Rose Valley states that Exhibit GB-3 demonstrates
 5 that, while some overlap exists to allow for appropriate oversight, supervisory overlap is different from
 6 a duplication of efforts. The Company notes that during the hearing, Staff agreed with Rose Valley's
 7 assertion that SARM was not performing tasks such as answering phones and performing field
 8 operations.¹⁴ The Company asserts that SARM coordinates with Rose Valley employees to maintain
 9 checks and balances to ensure appropriate oversight of operations.¹⁵

10 61. Staff did not dispute the Company's reclassification of certain costs from management
 11 expenses to billing expenses, but Staff contends that Rose Valley did not produce sufficient evidence
 12 to demonstrate a clear division of duties between the Company's employees and those of SARM.¹⁶ In
 13 its Surrebuttal Testimony, Staff clarified its position that since Rose Valley and SARM have common
 14 owners, their roles as officers and owners of the Company and SARM are inherently duplicative.¹⁷

15 62. In Rose Valley's Rejoinder Testimony, the Company stated that although they disagree
 16 with Staff's assessment, Rose Valley revised its position in an effort to allay Staff's concerns regarding
 17 overlap and duplication of duties.¹⁸ As such, Rose Valley removed \$71,049 from its management fee
 18 request, resulting in an adjusted total requested management fee of \$91,996. The removal of \$71,049
 19 reflects an amount equivalent to the salaries and related payroll taxes for Gary Brasher, Hoyt Pinaire,
 20 and Jacque Brasher in their respective capacities as owners and officers of Rose Valley.¹⁹

21 63. The Company claims that during the hearing Staff admitted that the Company's
 22 proposal to remove the common owner and officer salaries from the Management Fee Expense
 23 addressed Staff's concern about an alleged duplication of efforts between Rose Valley and SARM.²⁰

24 ¹² Ex. RV-7, p. 13; Ex. RV-8, pp. 7 – 9.

25 ¹³ Ex. RV-7, Exhibit GB-3.

26 ¹⁴ Tr. at 193 – 194.

27 ¹⁵ Ex. RV-8, pp. 10 – 12.

28 ¹⁶ Tr. at 192.

¹⁷ Ex. S-2, p. 3.

¹⁸ Ex. RV-9, pp. 6 – 7.

¹⁹ Ex. RV-9, p. 6.

²⁰ Tr. at 193.

1 Accordingly, Rose Valley requests that the Commission adopt an adjusted Management Fee Expense
2 of \$91,996.

3 64. We find that the testimony provided at hearing and in Exhibit GB-3 provide sufficient
4 evidence to alleviate concerns that ratepayers are being asked to pay for duplicative services and we
5 support Rose Valley's requested Management Fee Expense of \$91,996. Thus, we adopt it.

6 **Regulatory Commission Expense – Rate Case**

7 65. In the Company's Rate Application, Rose Valley proposed to recover its Rate Case
8 Expense of \$125,000 over a five-year period through Rate Base.

9 66. Staff recommends that the Rate Case Expense be removed from Operating Expenses
10 and placed in a separate Rate Case Expense Surcharge and collected over five years as a means to avoid
11 over- or under-collecting the authorized Rate Case Expense. This results in an \$0.87 charge per
12 customer, per month.²¹

13 67. The Company disagrees with Staff's recommendation because its adoption will create
14 additional administrative burdens, thereby increasing future operating expenses.²² Rose Valley asserts
15 that Staff's approach fails to reflect the addition of administrative tracking expenses related to the Rate
16 Case Surcharge, which results in a lack of transparency.²³

17 68. We find that Staff's recommendation to authorize a Rate Case Expense of \$125,000,
18 collected over five years through a Rate Case Expense Surcharge, resulting in charge of \$0.87 per
19 customer per month is reasonable, and we adopt it. Staff's approach is consistent with how the
20 Commission has treated rate case expenses for other utilities and protects ratepayers from having to
21 continue to pay for the Rate Case Expenses in base rates after the full amount of the authorized expense
22 has been recovered.

23 **Revenue Requirement**

24 69. As its final position, Rose Valley proposes a total Revenue Requirement of \$1,602,061,
25 which is an increase of \$250,000, or 18.49 percent, over test year Revenue of \$1,352,061. The
26 Company's proposal results in Operating Income of \$222,643, or a 13.90 percent Operating Margin.

27 ²¹ Ex. S-1, p. 7.

28 ²² Ex. RV-10, p. 11; Tr. at 112.

²³ Tr. at 111 – 112.

1 Rose Valley asserts that this amount is necessary to continue to provide safe and reliable service to its
2 customers.

3 70. Staff ultimately recommends a total Revenue Requirement of \$1,462,425, which is an
4 increase of \$110,364, or 8.16 percent, over test year Revenue of \$1,352,061. Staff's proposal results in
5 Operating Income of \$228,000, or a 15.59 percent Operating Margin. Staff asserts that its
6 recommended Revenue Requirement provides sufficient cash to cover operating maintenance and the
7 debt service on the recommended loan, as well as a reasonable level of funds for contingencies.

8 **Financing Application**

9 **Summary**

10 71. Through its Financing Application and supplemental filings, Rose Valley requested
11 Commission approval to incur \$1,647,036 of long-term debt from Commerce Bank of Arizona
12 ("CoBank").²⁴ The Company expects that the loan will be repayable over a term no longer than 10
13 years, and at an interest rate of 5.03 percent. Rose Valley requests that the debt service for the loan be
14 collected through a Loan Surcharge of \$5.64 per customer, per month.

15 72. The purpose of the loan is to pay for a meter replacement program, a tank maintenance
16 and software upgrade, a self-start program for pumps, and valve replacements, plus 25 percent in
17 contingency funds.²⁵ Staff states that it has reviewed the Company's proposed improvement projects
18 and concludes that all of the projects are necessary.

19 73. However, Staff and the Company disagree on an appropriate contingency amount. Staff
20 believes that a contingency of 20 percent of the total project costs is reasonable in this case, rather than
21 the 35 percent originally proposed by the Company, or the 25 percent offered later by the Company.
22 Thus, Staff recommends a reduced loan amount of \$1,491,503 at 6.5 percent interest, payable over 10
23 years. Staff also recommends disallowing the Company's request for a Loan Surcharge as Staff
24 believes that its recommended Revenue Requirement results in a DSC of 1.3, which Staff asserts will
25 provide Rose Valley with adequate cash flow to cover Operating Expenses, service the debt, and cover
26 contingencies.

27 _____
28 ²⁴ Ex. RV-3, pp. 1 – 3.

²⁵ Tr. at 57 – 59.

Loan Amount

74. Rose Valley and Staff agree on project costs with the exception of an appropriate contingency percentage. The Company initially requested 35 percent for contingencies, but in its Rejoinder Testimony Rose Valley reduced the requested amount to 25 percent in an effort to reach a compromise with Staff. Thus the Company reduced the requested loan amount to \$1,586,085.

75. The Company asserts that “the purpose of contingency is to ensure that money is available for cost overruns related to material and labor cost changes, as well as for unexpected costs that may arise while the projects are being completed.”²⁶ Rose Valley notes that its infrastructure is aging and mostly underground; as such, the Company often finds unknown problems when addressing maintenance issues.²⁷ In addition, Rose Valley claims that meter costs have increased over 35 percent since the Company received the initial quote for its meter replacement program.²⁸ Rose Valley notes that since the contingency funds are earmarked only to be used when unforeseen cost issues arise, it is possible that the funds might never be drawn upon. Nevertheless, the funds must be available if needed.²⁹

76. Staff recommends a contingency amount equivalent to 20 percent of total project costs. At hearing, Staff testified that it did not accept the Company’s modified request of a 25 percent contingency amount, noting that Staff typically factors in a contingency amount of less than 10 percent. Staff stated that its 20 percent recommendation in this case represents a middle ground from the standard 10 percent due to increasing costs.³⁰

77. A key consideration in determining an appropriate contingency amount is reasonableness. We note that it is possible that costs have increased since Rose Valley began its meter replacement program. We also note that the range of contingency amounts granted by the Commission varies from case to case.

78. The Company initially sought a contingency amount of more than one-third of the

²⁶ Post-Hearing Brief of Rose Valley Water Company (“Rose Valley Brief”), p. 12.

²⁷ Tr. at 53, 78 – 79.

²⁸ Attached to Rose Valley Brief as Attachment 3 is a Meter Pricing Contract 2022-2023. Because this was not presented as evidence at hearing, there was no opportunity for Staff to cross-examine Rose Valley’s witnesses about the contract. Thus, we cannot confirm the veracity of the contents of the attachment.

²⁹ Ex. RV-10, p. 10.

³⁰ Tr. at 169 – 170, 178.

1 amount of the cost of the proposed projects. Even with recent inflation rates, that amount would be
 2 excessive. The Company then dropped the amount to one-quarter of the cost of the proposed projects.
 3 Rose Valley claims that the ultimate amount of the project costs allocated for contingencies may not
 4 matter because it might not be necessary to draw on the contingency funds; however, it could become
 5 necessary and requiring ratepayers to cover an additional 25 percent of the project costs through the
 6 Loan Surcharge is not reasonable in this case.

7 79. Given the evidence presented, we find that Staff's recommended 20 percent contingency
 8 rate will provide Rose Valley with sufficient funds to cover most, if not all, unforeseen costs for
 9 materials and labor. Thus, we adopt Staff's recommendation and authorize Rose Valley to incur a loan
 10 not to exceed \$1,491,503.

11 **Loan Surcharge**

12 80. Rose Valley seeks imposition of a Loan Surcharge to collect the funds to service the
 13 debt on the loan. As noted above, Staff concluded that its recommended Revenues would provide the
 14 Company with sufficient cash flow to cover Operating Expenses, service the debt, and cover
 15 contingencies.

16 81. At hearing, Rose Valley presented a letter from CoBank to the Company expressly
 17 stating that CoBank considers the Loan Surcharge as a necessary component of the proposed financing.
 18 In the letter, CoBank explains that it had used the Loan Surcharge in its underwriting analysis as the
 19 "designated source of repayment for the Rose Valley loan," but asserts that without a surcharge
 20 collecting dedicated debt service funds, CoBank has no assurance that the Company will be able to
 21 meet both their loan commitments and its Operating Expenses.³¹ Further, Rose Valley notes that despite
 22 Staff's conclusion that its recommendations will result in a 1.3 DSC, CoBank concluded that neither
 23 CoBank's minimum DSC requirement of 1.25, nor Staff's projected 1.3 DSC is met under Staff's
 24 recommendations.³² Further, the Company explained that even if CoBank were willing to loan Rose
 25 Valley the funds without a Loan Surcharge, Rose Valley believes that it would be fiscally irresponsible
 26 to enter into the loan because of the possibility that the Company might not be able to repay the loan.³³

27 ³¹ Ex. RV-7, Exhibit GB-2.

28 ³² Ex. RV-7, Exhibit GB-2.

³³ Ex. RV-7, p. 9 – 10.

1 82. Rose Valley also introduced evidence supporting its position that Staff's
2 recommendations would leave the Company with \$60,000 of annual cash flow, or approximately
3 \$5,000 per month.³⁴ The Company related that it had spent in excess of \$55,000 in just two months in
4 the past year to fix failing infrastructure, and \$110,000 in the last 12 months on meter replacement
5 work alone.³⁵ Rose Valley noted that Staff admitted during the hearing that the infrastructure issues
6 will likely continue.³⁶

7 83. Staff contests the cash flow amounts calculated by Rose Valley and CoBank.³⁷ Staff
8 also observes that the Company has not challenged Staff's calculations outlined in Ex. S-2, Schedule
9 LAC-22. Staff notes that Schedule LAC-22 shows contingency funds available for the Company of
10 \$60,226, as opposed to the \$4,772 calculated by CoBank. Staff states that it is unaware of how CoBank
11 treated the remaining \$55,454 of contingency funds recommended by Staff.

12 84. To address the Company's arguments that Staff's recommendations do not provide
13 sufficient cash flow, Staff asserted that if Rose Valley encounters cash flow issues, the Company could
14 file an emergency rate case with the Commission.

15 85. In response, Rose Valley argues that an emergency rate case is not a viable, realistic, or
16 financially sound solution to the Company's concerns.³⁸ Rose Valley also asserts that emergency rate
17 cases are intended for true emergencies, "not as a band-aid for problems on a small utility system that
18 were entirely predictable and contemplated during that utility's general rate case."³⁹ Further, Rose
19 Valley contends that Staff's treatment in this case is inconsistent compared to other small water utilities
20 regarding a Loan Surcharge request.⁴⁰

21 86. Rose Valley points out that CoBank's offered interest rate of 5.03 percent on the loan,
22 payable over a 10-year term, are favorable terms for both ratepayers and the Company. Asked at
23 hearing why Rose Valley was seeking a 10-year term for the loan, the Company stated that that was
24

25 ³⁴ Ex. RV-10, pp. 7 – 8.

26 ³⁵ Tr. at 67.

27 ³⁶ Tr. at 176.

28 ³⁷ Ex. S-2, Schedule LAC-22.

³⁸ Tr. at 75.

³⁹ Rose Valley Brief, p. 11.

⁴⁰ Ex. RV-10, p. 16.

1 the term that CoBank offered despite the Company's request for a 15-year term.⁴¹

2 87. Staff proposed terms of an interest rate of no greater than 6.5 percent, with the loan
3 payable over 10-years, in case CoBank seeks a higher interest rate.

4 **Water Infrastructure Financing Authority ("WIFA")**

5 88. During the hearing, the parties discussed the advisability of attempting to secure the
6 proposed loan through WIFA, rather than CoBank.

7 89. Rose Valley testified that, in the Company's opinion, CoBank is the only financing
8 option for the Company. Rose Valley stated the Company has had a longstanding relationship with
9 CoBank; as such CoBank was willing to work with Rose Valley to create favorable loan terms.⁴² The
10 Company was asked if WIFA would be more desirable since the possibility of loan forgiveness exists.
11 Rose Valley observed that "WIFA is quite secretive about who they will forgive and who they won't,
12 and the additional costs that go with a WIFA loan..."⁴³ Ms. Ahlbrecht also testified that in 25 years of
13 working on rate cases and financings, she is personally aware of only three times where WIFA has
14 authorized forgiveness for a portion of the WIFA loan.⁴⁴ Ms. Ahlbrecht further stated that, although
15 WIFA often has lower interest rates, WIFA loans can also be more expensive because of the required
16 debt service reserve fund, and the repairs and maintenance funds.⁴⁵

17 90. The Company pointed out that in Staff's pre-filed testimony, Staff never suggested that
18 Rose Valley should borrow from WIFA instead of CoBank. Rose Valley notes that CoBank's proffered
19 5.03 percent interest rate has no other costs or fees attendant to it, unlike a WIFA loan.⁴⁶ Further, the
20 Company notes that even if Rose Valley were eligible for loan forgiveness, the amount would then be
21 accounted for as additional Contributions in Aid of Construction, exacerbating the Company's negative
22 rate base problem.⁴⁷

23 91. We find that, in this instance, a loan from CoBank with a 5.03 percent interest rate is a
24 more favorable option than would be WIFA.

25 ⁴¹ Tr. at 80.

26 ⁴² Tr. at 130 – 131.

27 ⁴³ Tr. at 131.

⁴⁴ Tr. at 132.

⁴⁵ Tr. at 133, 159.

⁴⁶ Tr. at 160.

28 ⁴⁷ Tr. at 160 – 161.

Discussion and Analysis

92. A fundamental reason for a Loan Surcharge is to provide the Company with an opportunity to fully recover its investment, not to merely meet debt service and other loan covenants. Thus, generally, the Revenue Requirement from base rates should be segregated from the funds needed for debt service and collected in the Loan Surcharge, and the amount of the Loan Surcharge should not be impacted by the capacity of the base rates to cover the loan obligations.

93. Staff's suggestion that if the Revenues are not sufficient to cover all expenses, then the Company could file an emergency rate case is short-sighted, especially since the Company is currently before the Commission requesting an adequate rate increase to meet Rose Valley's needs. Filing an emergency rate case would also cause the Company to incur more rate case expenses that it does not have the money to pay.

94. Given the foregoing, we find that it is reasonable to authorize Rose Valley to incur debt in an amount not to exceed \$1,491,503, at an interest rate not greater than 6.5 percent, and at a term not longer than 10 years.

95. Further, we find that it is reasonable to adopt a Loan Surcharge permitting Rose Valley to collect funds to service its debt with CoBank. The amount of the Loan Surcharge is discussed below in connection with Rate Design.

96. We also find that it is reasonable to direct Rose Valley to open a separate interest-bearing account in which all Loan Surcharge monies collected from customers will be deposited. The only disbursement of funds from this account will be to make debt service payments.

Revenue Requirement – Analysis and Conclusion

97. Given our earlier conclusions, we find that Rose Valley had adjusted test year Operating Revenues of \$1,478,016, and adjusted test year Operating Expenses of \$1,328,766, resulting in a Operating Income of \$149,250.

98. Because the Company has a negative Rate Base, we find that it is reasonable to adopt a Revenue Requirement using an Operating Margin methodology that analyzes the adequacy of the Company's cash flow, as proposed by the Company and recommended by Staff. Based on our earlier

conclusions, the following table represents our findings regarding Rose Valley's Revenue Requirement:

Adjusted Rate Base	(\$292,817)
Adjusted Test Year Operating Income	\$55,774
Current Rate of Return	Not meaningful
Required Operating Income	\$149,250
Operating Income Deficiency	\$93,476
Gross Revenue Conversion Factor	1.3475
Required Revenue Increase	\$125,955
Adjusted Test Year Revenue	\$1,352,061
Proposed Annual Revenue	\$1,478,016
Required Increase in Revenue (%)	9.32%
Operating Margin	10.10%
Depreciation Expense	\$35,454
TOTAL CASH FLOW	\$184,705

Rate Design and Surcharges

99. Rose Valley's present rates, its proposed rates, Staff's recommended rates, and the rates approved in this Decision are as follow:

<u>MONTHLY USAGE CHARGE:</u> <u>(All Classes, including Irrigation)</u>				
	<u>Present</u> <u>Rates</u>	<u>Company</u> <u>Proposed</u> <u>Rates</u>	<u>Staff</u> <u>Recommended</u> <u>Rates</u>	<u>Recommended</u> <u>Order Rates</u>
5/8" x 3/4" Meter	\$16.80	\$20.26	\$22.65	\$17.54
3/4" Meter	25.20	30.39	33.98	26.31
1" Meter	42.00	50.65	56.63	43.86
1 1/2" Meter	84.00	101.30	113.25	87.71
2" Meter	134.40	162.08	181.20	140.34
3" Meter	268.80	324.16	339.75	280.68
4" Meter	420.00	506.50	566.25	438.56
6" Meter	840.00	1,013.00	1,132.50	877.12
8" Meter	N/A	1,620.80	1,812.00	1,403.39
10" Meter	N/A	2,329.90	2,604.75	2,017.38

<u>COMMODITY CHARGES:</u> (Per 1,000 gallons)				
Gallons Included in Minimum -0-				
<u>All Classes</u>				
<u>5/8" x 3/4" Meter</u>				
First 3,000 gallons	\$0.85	\$0.87	\$0.87	\$1.20
From 3,001 to 8,000 gallons	1.42	1.64	1.31	
Over 8,000 gallons	2.00	2.40	1.57	

1	From 3,001 to 7,000 gallons				1.80
	Over 7,000 gallons				2.16
2					
	<u>3/4" Meter</u>				
3	First 3,000 gallons	\$0.85	\$0.87	\$0.87	\$1.20
4	From 3,001 to 8,000 gallons	1.42	1.64	1.31	
	Over 8,000 gallons	2.00	2.40	1.57	
5	From 3,001 to 7,000 gallons				1.80
	Over 7,000 gallons				2.16
6					
	<u>1" Meter</u>				
7	First 20,000 gallons	\$1.42	\$1.64	\$1.31	\$1.80
8	Over 20,000 gallons	2.00	2.40	1.57	2.16
9	<u>1 1/2" Meter</u>				
10	First 40,000 gallons	\$1.42	\$1.64	\$1.31	
	Over 40,000 gallons	2.00	2.40	1.57	
11	First 105,000 gallons				\$1.80
	Over 105,000 gallons				2.16
12					
	<u>2" Meter</u>				
13	First 64,000 gallons	\$1.42	\$1.64	\$1.31	
14	Over 64,000 gallons	2.00	2.40	1.57	
	First 205,000 gallons				\$1.80
15	Over 205,000 gallons				2.16
16					
	<u>3" Meter</u>				
17	First 128,000 gallons	\$1.42	\$1.64	\$1.31	
	Over 128,000 gallons	2.00	2.40	1.57	
18	First 475,000 gallons				\$1.80
19	Over 475,000 gallons				2.16
20	<u>4" Meter</u>				
21	First 200,000 gallons	\$1.42	\$1.64	\$1.31	
	Over 200,000 gallons	2.00	2.40	1.57	
22	First 775,000 gallons				\$1.80
	Over 775,000 gallons				2.16
23					
	<u>6" Meter</u>				
24	First 400,000 gallons	\$1.42	\$1.64	\$1.31	
	Over 400,000 gallons	2.00	2.40	1.57	
25	First 1,600,000 gallons				\$1.80
26	Over 1,600,000 gallons				2.16
27	<u>8" Meter</u>				
28	First 800,000 gallons	\$1.42	\$1.64	\$1.31	

Over 800,000 gallons	2.00	2.40	1.57	
First 2,600,000 gallons				\$1.80
Over 2,600,000 gallons				2.16
<u>10" Meter</u>				
First 1,600,000 gallons	\$1.42	\$1.64	\$1.31	
Over 1,600,000 gallons	2.00	2.40	1.57	
First 3,750,000 gallons				\$1.80
Over 3,750,000 gallons				2.16
<u>Landscape and School Meters:</u>				
All Usage (per 1,000 gallons)	\$2.00	\$2.40	\$1.57	\$2.16
<u>Irrigation</u>				
	\$2.00	\$2.40	\$1.57	\$1.96

<u>SERVICE CHARGES:</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>	<u>Recommended Order Rates</u>
Establishment	\$25.00	\$30.00	\$30.00	\$30.00
Reconnection (Delinquent)	\$30.00	\$30.00	\$30.00	\$30.00
NSF Check (Returned)	\$20.00	\$25.00	\$25.00	\$25.00
Meter Re-Read (If Correct)	\$20.00	\$25.00	\$25.00	\$25.00
Meter Test (If Correct)	\$25.00	\$30.00	\$30.00	\$30.00
Deferred Payment Interest	1.50%	1.50%	1.50%	1.50%
Deposit Interest	*	*	*	*
Deposit	*	*	*	*
Re-Establishment (Within 12 Months)	**	**	**	**
Late Payment Fee	***	***	***	***
After Hours (Per Hour)	\$35.00	\$45.00	N/A	N/A
After Hours Service Charge (At Customers Request)	N/A	N/A	\$45.00	\$45.00

* Per A.A.C. R14-2-403(B).

** Months off the system times the monthly minimum per A.A.C. R14-2-403(D).

*** 1.50% or \$5.00 per month, whichever is greater, if payment is not received within 15 days from the date the bill is rendered.

In addition to collecting its regular rates and charges, the Company shall collect from its customers a proportionate share of any privilege or sales tax per A.A.C. R14-2-409(D).

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	Present			Company Proposed			Staff Recommended		
	Service Line	Meter Charge	Total Charge	Service Line	Meter Charge	Total Charge	Service Line	Meter Charge	Total Charge
5/8 x 3/4" Meter	\$490.00	\$132.00	\$622.00	\$620.00	\$170.00	\$790.00	\$620.00	\$170.00	\$790.00
3/4" Meter	490.00	233.00	723.000	620.00	280.00	900.00	620.00	280.00	900.00
1" Meter	547.00	293.00	840.00	690.00	350.00	1,040.00	690.00	350.00	1,040.00

1 ½" Meter	610.00	506.00	1,116.00	760.00	590.00	1,350.00	760.00	590.00	1,350.00
2" Turbine Meter	927.00	1,031.00	1,958.00	1,150.00	1,170.00	2,320.00	1,150.00	1,170.00	2,320.00
2" Compound Meter	927.00	1,884.00	2,811.00	1,150.00	2,120.00	3,270.00	1,150.00	2,120.00	3,270.00
3" Turbine Meter	1,171.00	1,662.00	2,833.00	1,460.00	1,870.00	3,330.00	1,460.00	1,870.00	3,330.00
3" Compound Meter	1,308.00	2,546.00	3,854.00	1,630.00	2,860.00	4,490.00	1,630.00	2,860.00	4,490.00
4" Turbine Meter	1,661.00	2,647.00	4,308.00	2,080.00	3,000.00	5,080.00	2,080.00	3,000.00	5,080.00
4" Compound Meter	1,866.00	3,362.00	5,498.00	2,330.00	4,090.00	6,420.00	2,330.00	4,090.00	6,420.00
6" Turbine Meter	2,479.00	5,026.00	7,505.00	3,090.00	5,640.00	8,730.00	3,090.00	5,640.00	8,730.00
6" Compound Meter	2,615.00	6,939.00	9,554.00	3,260.00	7,770.00	11,030.00	3,260.00	7,770.00	11,030.00
8" Meter – Turbine	N/A	N/A	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10" Turbine Meter	N/A	N/A	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
Road Cut (If needed)	N/A	N/A	N/A	At Cost	N/A	At Cost	At Cost	N/A	At Cost

Service Line and Meter Installation Charges and Service Charges

100. The parties agree on the proposed Service Line and Meter Installation Charges, and the Service Charges. Thus, we find that these charges are reasonable, and we adopt them.

Rate Case Surcharge

101. As noted earlier, we adopt Staff's recommendation to implement a Rate Case Surcharge of \$0.87 per customer, per month for five years, which charge shall terminate without further order of the Commission after the earlier of five years, or until a total of \$125,000 is recovered.

Rate Design

102. In its Rate Application, the Company proposed to increase its Monthly Usage Charge from \$16.80 to \$22.78, and its commodity rates for residential and commercial customers with 5/8 x 3/4-inch meters from \$0.85 to \$1.10 for the first tier for the first 3,000 gallons, from \$1.42 to \$1.94 for the next 8,000 gallons, and from \$2.00 to \$2.76 for usage over 8,000 gallons.

103. Staff initially adopted the Company's proposed Monthly Usage Charges, but modified Rose Valley's proposed commodity rate design by increasing the first tier to \$0.86, the second tier to \$1.29, and the third tier to \$1.55. Staff did not change the Company's proposed breakover points for the commodity charges.

104. The Company claims that Staff's adjustments to Rose Valley's proposed commodity charges for the second and third tiers will encourage customers to use more water and disincentivize conservation.⁴⁸ Rose Valley also observes that Staff's revisions result in a decrease for some customers with higher usage amounts. However, as a compromise, the Company revised its proposed rate design

⁴⁸ Ex. RV-10; Tr. at 107.

1 to reduce its commodity tier rates downward from \$1.10 to \$0.87 for tier one, from \$1.94 to \$1.64 for
2 tier two, and from \$2.76 to \$2.40 for tier three. The Company argues that these rates will better
3 incentivize conservation that will Staff's proposed rates.

4 105. In its Surrebuttal Testimony, Staff revised its recommended commodity rates to \$0.87
5 for the first tier, \$1.31 for the second tier, and \$1.57 for the third tier. Staff states that its recommended
6 rate design meets the guidelines for the Commission's Water Policy, "even if the Commission's policy
7 does not promote conservation as to the level intended. Despite the Company's complaint that Staff's
8 recommendations do not promote conservation, Staff set the rates to follow the Commission's [W]ater
9 [P]olicy and guidelines."⁴⁹

10 106. A proper conservation rate design applies the economic principle of elasticity. Non-
11 discretionary usage is inelastic compared to discretionary usage. For most residential customers, non-
12 discretionary usage is less than 3,000 gallons per month. The primary feature of a conservation rate
13 design is to transfer revenue from non-discretionary usage to discretionary usage. In an efficient
14 conservation rate design, the break-over points are complemented by a significant increase in the
15 commodity rate between the first and second commodity tiers. The proper combination of this break-
16 over point and the rate differential between the first and second commodity tiers transfers a significant
17 amount of revenue from non-discretionary to discretionary use. Further increases in the third or higher
18 commodity rate tiers finds no support in economic principles for providing further conservation benefit
19 when the revenue requirement remains constant. This lack of conservation benefit from higher rates in
20 higher commodity tiers is due to the need to reduce lower commodity tier rates to offset the additional
21 revenue generated by increasing the rates for higher commodity tiers. Only if customers with higher
22 usage have greater price sensitivity than lower usage customers will increasing the rates of higher tiers
23 provide additional conservation.

24 107. In utility rate design, prices should ideally reflect long-run marginal cost. However,
25 utility rates cannot be ideally priced because using marginal prices will not result in revenues equal to
26 the revenue requirement. Nevertheless, the concept of marginal pricing provides valuable insight for
27

28 ⁴⁹ Staff's Reply Brief, p. 3.

1 pricing utility services. Since water is a finite resource, the cost of a new source when existing sources
2 are depleted will be greater than the cost of existing sources. Customers on the system who use more
3 than the average cause an earlier need for a new water source and the incurrence of incremental costs.
4 The incremental cost of future water sources, combined with the additional demand on the system by
5 high use customers, justifies moderately higher pricing for the third tier and above.

6 108. We note that both the median usage of 8,468 gallons and the average usage of 10,852
7 gallons are already above the highest breakover point proposed by the Company and Staff. In order to
8 promote conservation, we believe that it is reasonable to set the breakover points at 3,000 gallons
9 between the first and second tier rates, and 7,000 gallons between the second and third tier rates. We
10 believe that the rates adopted in this Decision will encourage conservation more aggressively, than
11 those of Staff and the Company. Excluding Loan and Rate Case Surcharges, the authorized rates for
12 all rate classes generate 45.21 percent of revenue from the monthly minimum charge, 5.95 percent from
13 the first commodity tier rate (51.16 percent for the combined Monthly Usage Charge and first tier),
14 15.33 percent from the second commodity tier rate, and 33.51 percent from the third commodity tier
15 rate.

16 109. While the guidelines in the Commission's Water Policy outlined in Decision No. 75626
17 (July 25, 2016), suggest that the third tier should generate no more than 20.0 percent of the revenue,
18 the priority in this case should be a rate structure that encourages efficient usage. The Company is
19 reliant upon finite groundwater as its sole water source. We find in this case that the continued
20 availability of water for essential use must take priority over revenue volatility concerns. Further,
21 concerns of revenue volatility are moderated by the fact that the approved base rates provide cash flow
22 of \$184,705 and an Operating Margin of 10.10 percent, which provide an adequate margin for revenue
23 variations and contingencies. In addition, inclusion of the Rate Case Surcharge would increase the
24 percentage of revenue generated by the minimum monthly charge and reduce the percentages of
25 revenue generated by each of the three commodity rate tiers.

26 **Bill Impacts of Rates and Surcharges**

27 110. Based on our earlier conclusions, we find that any Loan Surcharge authorized should be
28 based on the full amount of the incurred debt. The calculations below reflect the typical bill and Loan

1 Surcharge analyses for a loan of \$1,491,503 based on a term of 10 years, and at an interest rate of 6.5
 2 percent. Under these terms, the amount of the Loan Surcharge for a 5/8 x 3/4-inch meter customer
 3 would be \$5.26 per customer, per month. If the CoBank interest rate remains at 5.03 percent, then the
 4 Loan Surcharge will be less and the total amounts reflected below will be less.

5 111. The amounts below reflect base rate typical bill impacts, and the bill impacts with the
 6 Surcharge(s).

7 112. Under Company-proposed base rates (i.e., excluding Loan and Rate Case Surcharges)
 8 the typical residential monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 8,468
 9 gallons, would increase by \$4.80 or 17.52 percent, from \$27.39 to \$32.19. With the Loan Surcharge
 10 and the Rate Case Surcharge, the typical bill would increase by \$11.04, or 37.33 percent, from \$27.39
 11 to \$38.43.

12 113. Under Staff-recommended base rates, the typical residential monthly bill for a 5/8 x 3/4-
 13 inch meter customer, with a median usage of 8,468 gallons, would increase by \$5.15, or 18.80 percent,
 14 from \$27.39 to \$32.54. With the Rate Case Surcharge, the typical bill would increase by \$6.02, or 21.98
 15 percent, from \$27.39 to \$33.41.

16 114. Under the approved base rates, the typical residential monthly bill for a 5/8 x 3/4-inch
 17 meter customer, with a median usage of 8,468 gallons, would increase by \$4.12, or 15.04 percent, from
 18 \$27.39 to \$31.51. With the Loan Surcharge and the Rate Case Surcharge, the typical bill would increase
 19 by \$10.26, or 37.46 percent, from \$27.39 to \$37.65.

20 115. Based on our earlier findings, we find that authorizing a Loan Surcharge to recover the
 21 debt service for the loan is reasonable and in the public interest. Further, we find that the rates, charges,
 22 and surcharges authorized in this Decision, as reflected in the tables above, are just, reasonable, and in
 23 the public interest.

24 **Other Staff Recommendations**

25 116. Staff recommends:

- 26 1. Approval of the Company's proposed depreciation rates which are
- 27 summarized in Attachment 4 to the Direct Testimony of Stephanie Huang.
- 28 2. Approval of the financing in an amount not to exceed \$1,491,503 to purchase

1 and install Staff's recommended projects as detailed in Table 11 in the Direct
2 Testimony of Stephanie Huang.

- 3 3. That the Company file an Emergency Water Augmentation Tariff and Plan
4 of Administration within 30 days of the Decision in this proceeding.

5 117. In addition, we find it reasonable to direct as follows:

6 (a) That the Company docket a schedule of its approved rates and charges no later than
7 December 31, 2022.

8 (b) That in addition to collection of its regular rates and charges, the Company may
9 collect from its customers a proportionate share of any privilege or sales tax, per A.A.C. Rule 14-2-
10 409(D)(5).

11 (c) That Rose Valley file a notice of loan closing within 30 days of the documents'
12 execution. Simultaneously with the filing of the loan closing notice, the Company shall file an
13 application requesting implementation of the associated Loan Surcharge.

14 (d) That within 30 days of the filing of a Loan Surcharge implementation request, Staff
15 shall calculate the appropriate Loan Surcharge and prepare and file a recommended order for
16 Commission consideration.

17 (e) That upon approval of the Loan Surcharge, the Company shall open a separate
18 interest-bearing account in which all surcharge monies collected from customers will be deposited.
19 The only disbursement of funds from this account will be to make debt service payments to service the
20 debt. However, the Loan Surcharge mechanism should also provide for payment of incremental
21 property and income taxes. We revise Staff's recommendation to provide for those payments.

22 (f) That should there be any modification to the terms of the proposed loan subsequent
23 to Commission approval of the surcharge mechanism, the Company must file for an adjustment of the
24 Loan Surcharge mechanism.

25 (g) That the approvals of the loan and Loan Surcharge be rescinded, after due process,
26 if the Company has drawn no funds from the loan within three years of the date of this Decision. In
27 addition, the authorized financing shall be rescinded without further order of the Commission, after
28 due process, for any remaining funds not drawn on the loan within 42 months of the effective date of

1 this Decision. In addition, we believe that it is appropriate to place a termination date on debt
2 authorizations to avoid outstanding authorization for purposes that may not continue to be appropriate
3 over an extended period, and the Company should be encouraged to complete the capital improvement
4 projects in a timely manner. Accordingly, we believe that it is reasonable to require Rose Valley to file
5 with Docket Control, as a compliance item in this docket, documentation demonstrating the capital
6 projects and equipment purchases have been completed within three years from the effective date of
7 this Decision.

8 118. We find that Staff's recommendations, as modified herein, are just, reasonable, and in
9 the public interest, and should be adopted.

10 CONCLUSIONS OF LAW

11 1. Rose Valley is a public service corporation within the meaning of Article XV of the
12 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, and 40-302.

13 2. The Commission has jurisdiction over Rose Valley and the subject matter of the
14 Applications.

15 3. Rose Valley gave notice of the Applications in accordance with Arizona law.

16 4. The rates and charges authorized herein are just, reasonable, and in the public interest,
17 and should be approved.

18 5. The debt authorization granted herein is for lawful purposes, which are within the
19 corporate powers of Rose Valley, are compatible with the public interest, with sound financial
20 practices, and with the proper performance by the Company of service as a public service corporation
21 and will not impair the Company's ability to perform that service.

22 6. The financing approved herein is for the purposes stated in the Financing Application,
23 is reasonably necessary for those purposes, and is not reasonably chargeable to Operating Expenses or
24 to Income.

25 7. Approval of the financing does not constitute or imply approval or disapproval by the
26 Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing
27 just and reasonable rates.

28 ...

8. Staff's recommendations, as modified herein, are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Rose Valley Water Company shall file with Docket Control, as a compliance item in this docket, by December 31, 2022, revised schedules setting forth the following authorized rates and charges:

MONTHLY USAGE CHARGE: **(All Classes, Including Irrigation)**

5/8" x 3/4" Meter	\$17.54
3/4" Meter	26.31
1" Meter	43.86
1 1/2" Meter	87.71
2" Meter	140.34
3" Meter	280.68
4" Meter	438.56
6" Meter	877.12
8" Meter	1,403.39
10" Meter	2,017.38

COMMODITY CHARGES: (Per 1,000 gallons)

Gallons Included in Minimum -0-

All Classes

5/8" x 3/4" Meter

First 3,000 gallons	\$1.20
From 3,001 to 7,000 gallons	1.80
Over 7,000 gallons	2.16

3/4" Meter

First 3,000 gallons	\$1.20
From 3,001 to 7,000 gallons	1.80
Over 7,000 gallons	2.16

1" Meter

First 20,000 gallons	\$1.80
Over 20,000 gallons	2.16

1 1/2" Meter

First 105,000 gallons	\$1.80
Over 105,000 gallons	2.16

2" Meter

First 205,000 gallons	\$1.80
Over 205,000 gallons	2.16

3" Meter

First 475,000 gallons	\$1.80
Over 475,000 gallons	2.16

4" Meter

First 775,000 gallons	\$1.80
Over 775,000 gallons	2.16

6" Meter

First 1,600,000 gallons	\$1.80
Over 1,600,000 gallons	2.16

8" Meter

First 2,600,000 gallons	\$1.80
Over 2,600,000 gallons	2.16

10" Meter

First 3,750,000 gallons	\$1.80
Over 3,750,000 gallons	2.16

Landscape and School Meters:

All Usage (per 1,000 gallons)	\$2.16
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Irrigation

	\$1.96
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SERVICE CHARGES:

Establishment	\$30.00
Reconnection (Delinquent)	\$30.00
NSF Check (Returned)	\$25.00
Meter Re-Read (If Correct)	\$25.00
Meter Test (If Correct)	\$30.00
Deferred Payment Interest	1.50%
Deposit Interest	*
Deposit	*
Re-Establishment (Within 12 Months)	**
Late Payment Fee	***
After Hours Service Charge (At Customers Request)	\$45.00

* Per A.A.C. R14-2-403(B).

** Months off the system times the monthly minimum per A.A.C. R14-2-403(D).

*** 1.50% or \$5.00 per month, whichever is greater, if payment is not received within 15 days from the date the bill is rendered.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege or sales tax. Per Commission Rule A.A.C. R14-2-409(D)(5).

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	Service Line	Meter Charge	Total Charge
5/8 x 3/4" Meter	\$620.00	\$170.00	\$790.00
3/4" Meter	620.00	280.00	900.00
1" Meter	690.00	350.00	1,040.00
1 1/2" Meter	760.00	590.00	1,350.00
2" Turbine Meter	1,150.00	1,170.00	2,320.00
2" Compound Meter	1,150.00	2,120.00	3,270.00
3" Turbine Meter	1,460.00	1,870.00	3,330.00
3" Compound Meter	1,630.00	2,860.00	4,490.00
4" Turbine Meter	2,080.00	3,000.00	5,080.00
4" Compound Meter	2,330.00	4,090.00	6,420.00
6" Turbine Meter	3,090.00	5,640.00	8,730.00
6" Compound Meter	3,260.00	7,770.00	11,030.00
8" Meter – Turbine	At Cost	At Cost	At Cost
10" Turbine Meter	At Cost	At Cost	At Cost
Road Cut (If needed)	At Cost	N/A	At Cost

IT IS FURTHER ORDERED that the rates and charges approved herein shall be for all service provided on and after January 1, 2023.

IT IS FURTHER ORDERED that Rose Valley Water Company shall notify its customers of the authorized rates and charges approved in this proceeding, including the approximate Loan Surcharge and Rate Case Surcharge, and their effective dates, in a form acceptable to Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Rose Valley Water Company shall file with Docket Control, as a compliance item in this docket, a copy of its customer notice with Docket Control within 30 days of the date the notice is mailed to its customers.

IT IS FURTHER ORDERED that Rose Valley Water Company is authorized to implement a Rate Case Surcharge of \$0.87 per customer, per month, which charge shall terminate without further order of the Commission after the earlier of five years, or until a total of \$125,000 is recovered.

IT IS FURTHER ORDERED that Rose Valley Water Company shall utilize Staff's typical and customary depreciation rates as delineated in Attachment 4 of the Direct Testimony of Stephanie Huang.

1 IT IS FURTHER ORDERED that Rose Valley Water Company is authorized to incur debt from
2 CoBank in an amount no greater than \$1,491,503 for a term of 8 to 10 years, and at an interest rate not
3 to exceed 6.5 percent.

4 IT IS FURTHER ORDERED that Rose Valley Water Company shall file with Docket Control,
5 within 30 days of loan closing, a notice of loan closing and an application requesting implementation
6 of a Loan Surcharge.

7 IT IS FURTHER ORDERED that, within 30 days of the receipt of the Loan Surcharge
8 application, Staff shall calculate the appropriate Loan Surcharge and prepare and file a recommended
9 order for Commission consideration.

10 IT IS FURTHER ORDERED that Rose Valley Water Company shall open a separate interest-
11 bearing account in which all Loan Surcharge monies collected from customers will be deposited. The
12 only disbursement of funds from this account will be to make debt service payments, and payment of
13 incremental property and income taxes.

14 IT IS FURTHER ORDERED that if there are any modifications to the terms of the proposed
15 loan subsequent to Commission approval of the Loan Surcharge mechanism, Rose Valley Water
16 Company shall file a Request for an Adjustment of the Loan Surcharge Mechanism in this docket.

17 IT IS FURTHER ORDERED that the authorized financing shall be rescinded without further
18 order of the Commission, after due process, for any funds not drawn on the loan within 42 months of
19 the effective date of this Decision.

20 IT IS FURTHER ORDERED that Rose Valley Water Company shall file with Docket Control,
21 as a compliance item in this docket, documentation demonstrating that the capital projects and
22 equipment purchases have been completed within three years from the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Rose Valley Water Company shall file with Docket Control,
2 as a compliance item in this docket, an Emergency Water Augmentation Tariff and Plan of
3 Administration within 30 days of the effective date of a Commission Decision in this proceeding.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRWOMAN MÁRQUEZ PETERSON

COMMISSIONER KENNEDY

9
10 COMMISSIONER OLSON

COMMISSIONER TOVAR

COMMISSIONER O'CONNOR
11

12 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____ 2022.

17 MATTHEW J. NEUBERT
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20
21 DISSENT _____
22 BAM/ec
23
24
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26
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28

SERVICE LIST FOR:

ROSE VALLEY WATER COMPANY

DOCKET NO.:

W-01539A-22-0064 and W-01539A-22-0065

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